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SUBJECT: PRIME MINISTER COUP IN POLITICAL BATTLE ON
EDUCATION QUOTAS

Classified By: PolCouns Ted Osius for reasons 1.4 (B,D)

(C) 1. SUMMARY: Legislation introduced by the United Progressive Alliance (UPA) Government in August, seeks to reserve 27 per cent of seats for Other Backward Classes (OBCs) in federally aided higher educational institutions, including the prestigious Indian Institutes of Technology (IIT) and Management(IIM). Most political observers view the bill as a pet project of Human Resource Development Minister Arjun Singh, who hopes to use it as a stepping stone to becoming Prime Minister. The UPA is divided on how to implement the reservations, and they have sparked an intense public reaction, with students staging angry protests around the country. The bill has not been considered by the full House, as Prime Minister Manmohan Singh has referred the legislation to a standing committee, where it could be hung-up indefinitely. Singh hopes his move will deflect Arjun Singh's challenge to his leadership and prevent further action. END SUMMARY

The Legislation

(U) 2. On August 25, the UPA Government introduced a bill in Parliament to change admission guidelines for federally aided higher educational institutions. The legislation seeks to reserve 27 percent of seats in all such institutions for persons belonging to Other Backward Castes. These castes fall between the dalits and the upper castes, and dominate many parts of the country, including the electorally important states of Uttar Pradesh (UP) and Bihar. The Bill seeks to introduce the new reservations in phases

over a 3 year period by increasing the number of available seats.

The Political Trappings I --Arjun Singh's Political Ambitions

(C) 3. The quotas are the brainchild of Human Resource Development (HRD) Minister Arjun Singh, who hopes to use this issue to further his political ambitions. The March introduction of quotas, spurred nation-wide protests by students, which were only defused after the Supreme Court and the Prime Minister intervened. To calm the angry students, the PM exempted private and state funded institutions from the bill and appointed a Committee to look at the reservations issue in all educational institutions. Its final report is due quite soon. Although the Prime Minister wanted the Bill to be introduced only after the Committee report, political compulsions and pressure from UPA constituents and the Left parties, forced him to relent.

The Political Trappings II -- The Upcoming Elections in Uttar Pradesh

(U) 4. The UPA moved on the reservation issue in an attempt to appease the OBCs in the run-up to the crucial UP elections expected in February 2007. OBCs form a crucial vote bank in the state. The Congress party is determined to improve its position in UP and wants to use quotas to woo OBC's away from the ruling Samajwadi Party (SP). Despite the political

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rationale, the move faced significant opposition within the cabinet. Some UPA Ministers wanted the quotas rolled out in one go, while PM Singh and Finance Minister Chidambaram preferred a staggered approach that would soften the measure's huge financial impact. There was also intense debate within the UPA on whether to extend reservations to economically well placed OBCs or restrict them to the poor. The government finally decided to let parliament decide the issue.

Aggravating Public Unrest-India's Lack of High Quality Educational Opportunities

(U) 5. The quota debate concerns not only equal access to educational opportunities and leveling the playing field, but educational challenges writ large. India's talented students must contend with a lack of competitive, high quality education. India's best schools are its Institutes of Technology and Management, where 22 percent of all seats are currently reserved for dalits and tribals. If the GOI fails to fund new seats, it will limit access to the best education and training in India. In a population of over 1 billion, only 5,200 graduate from India's IIT's and IIM's. The many bright, hard working students who cannot land a spot in one of these schools or go abroad for school, are left behind. This is fueling the students' angry protests.

Cost Estimates Vary and Will Depend on Actual Admission Levels

(U) 6. The government committee tasked with developing a plan for implementing OBC reservations has suggested that it will cost roughly \$4.3 billion over three years, as it would require expensive upgrades to laboratories and other facilities. The GOI has estimated that it could cost \$2.1 billion to create new seats for the expected influx of OBCs. Even at the lower level of \$2 billion, such a price tag would be hard for the GOI to finance. It would require nearly 13 percent of the current annual education budget and could, if

expenditures are not reduced elsewhere, add to the fiscal deficit*at a time when legislation requires deficit reduction. Regardless of which estimate is more realistic, the real test is how many OBCs are actually admitted under the plan. Reservations for the dalits and tribals remain significantly underutilized, because they find it hard to meet even lowered admission criteria.

(U) 7. At the same time, concerns about the impact of the quotas could divert economically-advantaged students to private schools, which are left outside the legislation's purview. This could spur further investment in private schools, which could then provide educated manpower to India,s growing knowledge economy. However, should the GOI decide to extend the quotas to private institutions*as sought by Arjun Singh and others, it could quash potential investment in private education. Such a move could also put a damper on GOI plans to capture a share of the \$30 billion global trade in education by opening the sector to foreign direct investment (FDI).

(U) 8. Some argue that potential U.S. investment in the Indian education sector could be limited in any case, as

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their foremost focus is India's large scale consumption and production markets. If such a prognosis is correct, investors are unlikely to be overly concerned by the current legislation. Furthermore, the potential benefit for investors represented by an educated labor pool is years down the road and therefore not a high priority. The proposed legislation would also require the GOI to create additional seats for eligible OBC candidates, rather than reduce access to other potentially better-qualified students. If implemented as envisioned, the legislation would theoretically not diminish the numbers of qualified graduates. Finally, the fiscal constraints to wholesale implementation of the program make the reservations, future too uncertain for most investors to worry about at this point.

Impact on Potential US Educational Institutions Coming to India

(C) 8. Currently, the legislation would apply to all public educational institutions and does not apply to non-Indian educational institutions. However, Arjun Singh has stated that foreign universities should be held to the law of the land and be subject to the quota requirements. If his proposal is adopted, it would add a cumbersome requirement that could dissuade US educational institutions from coming to India.

(C) 9. COMMENT: The quota debate has always been highly contentious, as students across the country fear that the introduction of fresh quotas will undermine academic excellence. Already, the Indian Constitution provides for reservation of 23 percent seats in all government funded educational institutions for Scheduled Castes (Dalits) and Tribes. While many higher technical institutions are largely dominated by the upper castes, reservations may not necessarily correct the imbalance. Typically, economically well off persons within the reserved communities have benefited from reservations and the current proposal would likely benefit the wealthy OBC's. Many activists and political analysts argue that caste should be abandoned as a criteria for reservations and that economic criteria should be the only consideration.

10. (SBU) There are several factors which could prevent the OBC quotas from ever being implemented. The possible cost of further reservations is staggering, and could reach as much as \$4 billion dollars. The Bill could be buried indefinitely in the standing committee. Though this bill was brought up

at the behest of Arjun Singh, the Prime Minister is adamantly opposed and has come out on top. His handling of this issue demonstrated his political strength, leaving Arjun Singh back at the drawing board. Despite the poor chances for the legislations, political considerations have compelled most parties to support the new reservations, and, in the end, political expediency could yet again win out over common sense. END COMMENT
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